

Message Text

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ACTION EUR-12

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INFO AMEMBASSY BELGRADE

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AMCONSUL LENINGRAD

AMCONSUL MUNICH

USMISSION NATO

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

C O N F I D E N T I A L MOSCOW 18350

E.O. 11652 GDS

TAGS: ETRD EIND ECON UR

SUBJ: EFFECT ON FOREIGN TRADE OF CURRENT SOVIET INDUSTRIAL MANAGEMENT
REORGANIZATION

REF: MOSCOW 12544

1. SUMMARY: MANAGEMENT SHAKE-UP CURRENTLY UNDERWAY IN
SOVIET ECONOMY WILL ENHANCE ROLE OF INDIVIDUAL INDUSTRIAL
MINISTRIES IN FOREIGN TRADE OPERATIONS. HOWEVER, ACTUAL TRADE
FOR PRESENT WILL REMAIN CENTRALIZED STATE FUNCTION UNDER
CONTROL OF USSR MINISTRY OF FOREIGN TRADE AND ITS SATELLITE
FOREIGN TRADE ORGANIZATIONS (FTOS). THIS IS PRIMARILY RESULT
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OF FACT THAT MANY INDUSTRIES CAN NOT "AFFORD" TO CARRY OUT

THEIR OWN FOREIGN TRADE. NONETHELESS, MOST INDUSTRIAL MINISTRIES HAVE SIZABLE HARD-CURRENCY SLUSH FUNDS AT THEIR DISPOSAL FOR UNPLANNED PURCHASES OF FOREIGN EQUIPMENT. END SUMMARY.

2. AT RECEPTION DEC 9 YU. G. LOGACHEV, CHIEF, MAIN ADMINISTRATION FOR MEDICAL TECHNOLOGY, USSR MINISTRY OF MEDICAL INDUSTRY, IN DISCUSSION WITH EMBOFF SHED CONSIDERABLE LIGHT ON OFFICIAL THINKING REGARDING EFFECT ON FOREIGN TRADE MECHANISM OF CURRENT MANAGEMENT REORGANIZATION IN SOVIET INDUSTRY. QUESTIONED ON ROLE OF NEW MIDDLE LINK IN PRODUCTION MANAGEMENT--INDUSTRIAL ASSOCIATIONS (PROMYSHLENNIYE OB'YEDINYENIYA)--IN SOVIET FOREIGN TRADE, LOGACHEV INDICATED THAT MORE DIRECT TIES WITH FOREIGN COMPANIES WILL BE DEFINITE RESULT AND IS IN FACT ALREADY TAKING PLACE. ADVANTAGES OF "COMPANY-TO-COMPANY" TIES WOULD BE CONSIDERABLE, HE INDICATED, E.G., REDUCTION OF FOREIGN TRADE MINISTRY MIDDLE-MAN ROLE, RENDERING FOREIGN TRADE MORE EFFICIENT AND THUS MORE ADVANTAGEOUS. MOREOVER, SINCE INDUSTRIAL ASSOCIATIONS ARE SUPPOSED TO BE FINANCIALLY SELF-SUPPORTING (KHOZRASHCHYOT) IN CONTRAST TO MINISTERIAL MAIN PRODUCTION ADMINISTRATIONS (GLAVKS) WHICH THEY ARE REPLACING, FOREIGN TRADE WOULD ULTIMATELY ASSIST IN UPGRADING THEIR FINANCIAL INTEGRITY BY RATIONALIZING AND RENDERING MORE EFFICIENT GIVEN INDUSTRIAL SECTOR.

3. NEVERTHELESS, INDUSTRIAL ASSOCIATIONS FOR PRESENT WILL NOT ACTUALLY ENGAGE IN FOREIGN TRADE FOR THEIR OWN ACCOUNT. LOGACHEV STRESSED THIS CHIEFLY DUE TO FACT THAT MANY OF THESE ASSOCIATIONS COULD NOT "AFFORD" TO TRADE. AS EXCEPTION WITHIN OVERALL SOVIET FOREIGN TRADE SYSTEM SOME MAJOR ENTERPRISES ARE PRESENTLY ALLOWED TO BUILD UP HARD CURRENCY RESERVES--EARNED FROM EXPORT SALES--WITH WHICH THEY HAVE RIGHT TO PURCHASE FOREIGN EQUIPMENT (THROUGH APPROPRIATE FTL). SUCH PRINCIPLE, IF APPLIED TO AN ENTIRE INDUSTRY, WOULD REQUIRE THAT ALL FOREIGN PURCHASES BE COVERED BY EXPORT SALES. IN MANY INDUSTRIES, WHOSE EXPORT CAPABILITIES ARE LIMITED AT BEST, THIS WOULD BE IMPOSSIBLE, STATED LOGACHEV. THUS, CURRENT PRACTICE PROVIDING FOR CENTRAL GOVERNMENT POOLING OF VIRTUALLY ALL EXPORT EARNINGS (EXCEPT

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FOR THOSE OF CERTAIN MAJOR FACTORIES AS NOTED ABOVE) FOR OVERALL FINANCING OF FOREIGN PURCHASES WILL REMAIN IN EFFECT FOR AT LEAST IMMEDIATE FUTURE. AS LOGACHEV PUT IT: "AT PRESENT THE OIL INDUSTRY IS FINANCING THE FOREIGN TRADE OF THE MEDICAL EQUIPMENT INDUSTRY."

4. CURRENT NON-PROFITABILITY (IN FOREIGN TRADE TERMS) OF MEDICAL EQUIPMENT INDUSTRY NOTWITHSTANDING, LOGACHEV NOTED

THAT MINISTRY HAS EQUIVALENT OF ROUGHLY 20 MILLION RUBLES IN HARD CURRENCY SLUSH FUND AVAILABLE AT ALL TIMES FOR UNEXPECTED PURCHASES NOT PROGRAMMED INTO ANNUAL OR FIVE-YEAR PLANS. HE STATED THAT THIS IS RELATIVELY SMALL SUM COMPARED TO WHAT OTHER, MORE IMPORTANT INDUSTRIAL MINISTRIES HAVE AT THEIR DISPOSAL. ACCORDING TO LOGACHEV, THESE UNALLOCATED FUNDS ARE SET ASIDE FOR MINISTRIES AT BEGINNING OF PLAN PERIODS.

5. COMMENT: LOGACHEV'S COMMENTS ARE EXCEPTIONALLY INTERESTING, NOT LEAST OF ALL BECAUSE OF THEIR RARE CANDOR. CLEARLY IMPLIED WAS FACT THAT UNDERCURRENT OF DISCUSSION CONTINUES AMONG SOVIET ECONOMIC POLICY-MAKERS (SEE ALSO REFTEL) OVER ROLE INDIVIDUAL INDUSTRIAL MINISTRIES SHOULD PLAY IN FOREIGN TRADE. KHOZRASHCHYOT PRINCIPLE OF INDIVIDUAL FINANCIAL SELF-SUFFICIENCY, APPLIED TO FOREIGN TRADE AT LEAST, APPARENTLY VIEWED (AND PROBABLY RIGHTLY SO) AS KEY STUMBLING BLOCK TO ALLOWING WEAKER INDUSTRIES THE DECISIVE DIRECT TIES WITH FOREIGN FIRMS THAT MANY SOVIET ECONOMIC MANAGERS FEEL THEY SHOULD HAVE. ON OTHER HAND, THIS HURDLE COULD WELL BE OVERCOME AS USSR BECOMES OVER WEALTHIER THROUGH RAW MATERIAL AND GOLD SALES ABROAD, THUS ALLOWING FOR "SUBSIDIES" TO WEAKER INDUSTRIES UNTIL THEY ABLE TO ESTABLISH CAPABILITY TO COVER HARD CURRENCY EXPENDITURES WITH EXPORT EARNINGS. IN THAT EVENT, VERY REAL POSSIBILITY WOULD EXIST FOR BREAKDOWN OF CENTRALIZED SOVIET TRADE MONOPOLY AS IT NOW OPERATES. CERTAINLY SOVIET FOREIGN TRADE MINISTRY OFFICIALS HAVE SHOWN GREAT SENSITIVITY WHEN QUESTIONED ABOUT THIS SUBJECT DURING RECENT DISCUSSIONS.

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